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UNCLAS SECTION 01 OF 02 SAN SALVADOR 000235

SIPDIS

INFO WHA CENTRAL AMERICAN COLLECTIVE IMMEDIATE
AMEMBASSY BELIZE IMMEDIATE
AMEMBASSY BOGOTA IMMEDIATE
AMEMBASSY CARACAS IMMEDIATE
AMEMBASSY MEXICO IMMEDIATE
AMEMBASSY PANAMA IMMEDIATE
AMEMBASSY SANTO DOMINGO IMMEDIATE

SENSITIVE

E.O. 12958: N/A

TAGS: [ENRG](#) [EPET](#) [ECON](#) [ES](#)

SUBJECT: EL SALVADOR VIEWS ON MESOAMERICAN ENERGY INITIATIVE

REF: A. SECSTATE 11181

[1](#)B. 2004 SAN SALVADOR 2376

[1](#)1. (SBU) The Government of El Salvador (GOES) has expressed interest in the Mesoamerican Energy Initiative (PIEM) and will participate in related working groups, but the GOES appears to be not yet convinced of the feasibility of the proposal or its benefits for Central America. After the Mexican government formally unveiled the initiative, Salvadoran Vice President Ana Vilma de Escobar remarked to emboffs that the proposal seemed to offer little for Central America. Since then, the GOES has engaged with other countries in the region on the project, but has identified several shortcomings. How these are addressed will shape GOES support for the PIEM.

[1](#)2. (SBU) A first issue is economic viability. GOES Director of Hydrocarbons Gina Hernandez told Econcouns in December that the GOES could not make a judgment on the proposal - in particular, the refinery proposal - without some analysis of its economic feasibility. Hernandez did not believe that the project would work if limited only to the use of Mayan crude (comment: her use of the term), with its characteristics; she also questioned how the financing mechanism would work. On January 26, Hernandez said that a working group of countries from the region had just approved the terms of reference for an IDB-funded feasibility study on this project; the group had also approved preliminary terms of reference for a study on natural gas and she said final approval would probably be forthcoming in end-February. She indicated that the GOES would try to gain agreement that other sources of fuel could be considered for a refinery project. On the issue of Pemex investment in the region, she doubted the company's interest in investing in the absence of incentives or its willingness to construct new fuel storage facilities to supply a network of gasoline stations.

[1](#)3. (SBU) El Salvador is interested in the possibilities for natural gas but acknowledges that a pipeline from Mexico, an idea which has been under discussion for some time, may not be feasible. However, Cutuco Energy Central America, CECA, a consortium led by U.S. company Crystal Energy, has proposed the construction of a natural gas terminal, natural gas storage facility and natural gas-fired electricity plant at the Port of La Union, now under construction on the Gulf of Fonseca. CECA's broad vision contemplates an interconnection to the SIEPAC transmission grid and a pipeline to deliver natural gas to users as far away as Guatemala (comment: the supply source for the gas is to be determined, but Spain's Repsol is known to be involved in the project with Crystal.) Ministry of Economy energy officials said that El Salvador wants to ensure that any discussion of a natural gas plant in the region allows for the possibility of siting it in El Salvador.

[1](#)4. (SBU) On the other hand, El Salvador is seeking to define a role for renewable sources of energy in its own energy policy. The Ministry of Economy believes that additional electricity generation using biomass, solar, wind and biofuels should be promoted as an alternative to importing fossil fuel and has been looking for international assistance in this effort. The GOES has also established the planning and management of energy efficiency programs as a priority. To promote its interest with the PIEM, the GOES will participate in three working groups among Central America countries, including Panama and Belize: hydrocarbons, technical aspects of electricity interconnection, and renewable energy and energy efficiency.

San Jose Accord

[1](#)5. (SBU) Post believes that benefits of the San Jose Accord accruing to El Salvador are minimal. The hydrocarbons market in El Salvador is private; petroleum products are imported on

a commercial basis, and petroleum importers have expressed doubt in the past that a system of government purchases in order to access benefits of the Accord is viable. The Minister of Economy has stated publicly, in addition, that El Salvador does not need extended financing terms; what the country wants is lower petroleum prices. Still, both Mexico and Venezuela are important suppliers to El Salvador. According to Central Bank figures, importers brought in over half of El Salvador's supply of crude oil in 2004 and a third in 2005 from Venezuela; in 2005, over a third of crude imports originated in Mexico. In 2004 and 2005, crude oil represented 34% of total fuels imports (which also included gasoline, kerosene and jet fuel, diesel, propane, etc.). Crude oil imports to El Salvador by country of origin (by weight, as percent of total)

(Based on Import Data from Central Reserve Bank)

	2004	2005
Mexico	8.0	36.7
Netherlands Antilles	1.9	2.5
Ecuador	31.9	25.2
Venezuela	56.5	35.1

Comment

16. (SBU) The fuels market in El Salvador is market-based and operated by private companies. Programs which limit the flexibility of suppliers in where they source oil and oil derivatives is unlikely to win support in El Salvador. El Salvador is also cautious about signing on too early to a refinery project that promises to be a white elephant. Like other countries in the region, however, El Salvador is tackling the need to mitigate the impact of higher global oil prices on electricity prices (over 40 percent of electricity is generated in thermal plants). The electricity components of the PIEM which expand generation capacity and diversify fuel sources - i.e., the LNG component project; development of renewables - are likely to be of interest, especially if they would consider siting a plant in El Salvador. Given the production potential of the gas plant (expectations are on the order of 500 MW or more), and/or the possible construction of a coal-fired plant which has also been proposed for the new port at La Union, El Salvador has an interest in the development of the SIEPAC electricity grid, but it is not clear if interconnection with Mexico is a priority. El Salvador will proceed with analysis of the proposed gas plant at La Union but believes that it must build the structure to regulate the use of liquified natural gas. The perceived need to establish a regulatory structure for gas can be expected to hold if the impetus for development of natural gas came through the PIEM.

Barclay